

**REPORT OF THE AUDIT OF THE
LARUE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LARUE COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the LaRue County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$8,726,972 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,373,141 in its governmental activities as of June 30, 2004, with total net assets of \$8,712,371. In its enterprise fund, total net cash and cash equivalents were \$14,601 with total net assets of \$14,601. Total debt principal as of June 30, 2004 was \$2,585,505 with \$229,048 due within the next year.

Deposits:

The fiscal court's deposits were under-collateralized by \$71,327 at August 31, 2003. However, at fiscal year end, June 30, 2004, the fiscal court's deposits were fully collateralized.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tommy Turner, LaRue County Judge/Executive
Members of the LaRue County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of LaRue County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the LaRue County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, LaRue County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of LaRue County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Members of the LaRue County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LaRue County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2005 on our consideration of LaRue County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 29, 2005

LARUE COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Tommy Turner	County Judge/Executive
William Bryan Durham	Magistrate
Johann Pat Eastridge	Magistrate
Peggy B. Hawkins	Magistrate
Edward Scotty Lee	Magistrate

Other Elected Officials:

Dale Morris	County Attorney
Ralph Mac Trumbo	Jailer
Linda Carter	County Clerk
Larry Bell	Circuit Court Clerk
Bobby Shoffner	Sheriff
James Q. Shaw	Property Valuation Administrator
George Bertram	Coroner

Appointed Personnel:

Lauralene Reed	County Treasurer
Renee Strock	Finance Officer
Kathy Oveson	Administrative Assistant
Tommy Rosel	Road Supervisor
Clara Mae Druen	911 Administrator
Linda Flenner	Jail Administrative Assistant

LARUE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

LARUE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,373,144	\$ 14,601	\$ 1,387,745
Total Current Assets	<u>1,373,144</u>	<u>14,601</u>	<u>1,387,745</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress			
Land and Land Improvements	1,107,499		1,107,499
Buildings	4,669,674		4,669,674
Other Equipment	510,485		510,485
Vehicles and Equipment	283,987		283,987
Infrastructure Assets - Net of Depreciation	<u>3,353,087</u>		<u>3,353,087</u>
Total Noncurrent Assets	<u>9,924,732</u>		<u>9,924,732</u>
Total Assets	<u>11,297,876</u>	<u>14,601</u>	<u>11,312,477</u>
LIABILITIES			
Current Liabilities:			
Financing Obligation Payable	109,048		109,048
General Obligation Payable	75,000		75,000
Revenue Bond Payable	<u>45,000</u>		<u>45,000</u>
Total Current Liabilities	<u>229,048</u>		<u>229,048</u>
Noncurrent Liabilities:			
Financing Obligation Payable	531,457		531,457
General Obligation Payable	1,495,000		1,495,000
Revenue Bond Payable	<u>330,000</u>		<u>330,000</u>
Total Noncurrent Liabilities	<u>2,356,457</u>		<u>2,026,457</u>
Total Liabilities	<u>2,585,505</u>		<u>2,255,505</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 7,339,227	\$	\$ 7,339,227
Restricted For:			
Debt Service	3		3
Unrestricted	<u>1,373,141</u>	<u>14,601</u>	<u>1,387,742</u>
Total Net Assets	<u>\$ 8,712,371</u>	<u>\$ 14,601</u>	<u>\$ 8,726,972</u>

The accompanying notes are an integral part of the financial statements.

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LARUE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

LARUE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,185,270	\$ 60,549	\$ 215,213	\$
Protection to Persons and Property	1,496,930	1,213,700	212,649	
General Health and Sanitation	69,305			
Social Services	26,165			
Recreation and Culture	114,052			
Roads	849,369		773,792	389,997
Other Transportation Facilities and Services	94,488			
Debt Service	104,983			
Total Governmental Activities	3,940,562	1,274,249	1,201,654	389,997
Business-type Activities:				
Jail Canteen	152,746	154,090		
Total Business-type Activities	152,746	154,090		
Total Primary Government	\$ 4,093,308	\$ 1,428,339	\$ 1,201,654	\$ 389,997

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

 Total General Revenues

 Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LARUE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Totals
\$ (909,508)	\$	\$ (909,508)
(70,581)		(70,581)
(69,305)		(69,305)
(26,165)		(26,165)
(114,052)		(114,052)
314,420		314,420
(94,488)		(94,488)
(104,983)		(104,983)
(1,074,662)		(1,074,662)
	1,344	1,344
	1,344	1,344
\$ (1,074,662)	\$ 1,344	\$ (1,073,318)
625,585		625,585
95,307		95,307
169,647		169,647
86,859		86,859
27,240	90	27,330
128,809		128,809
1,133,447	90	1,133,537
58,785	1,434	60,219
8,653,586	13,167	8,666,753
\$ 8,712,371	\$ 14,601	\$ 8,726,972

The accompanying notes are an integral part of the financial statements.

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LARUE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

LARUE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road And Bridge Fund	Jail Fund	Non- Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,297,334	\$ 9,386	\$ 66,421	\$ 3	\$ 1,373,144
Total Assets	<u>\$ 1,297,334</u>	<u>\$ 9,386</u>	<u>\$ 66,421</u>	<u>\$ 3</u>	<u>\$ 1,373,144</u>
FUND BALANCES					
Reserved for:					
General Fund	\$ 42,958	\$	\$	\$	\$ 42,958
Unreserved:					
General Fund	1,254,376				1,254,376
Special Revenue Funds		9,386	66,421		75,807
Debt Service Funds				3	3
Total Fund Balances	<u>\$ 1,297,334</u>	<u>\$ 9,386</u>	<u>\$ 66,421</u>	<u>\$ 3</u>	<u>\$ 1,373,144</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Changes In Net Assets:

Total Fund Balances	\$ 1,373,144
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	15,531,526
Depreciation	(5,606,794)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(640,505)
Bonded Debt	<u>(1,945,000)</u>
Net Assets Of Governmental Activities	<u>\$ 8,712,371</u>

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LARUE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LARUE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road And Bridge Fund	Jail Fund	Non- Major Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 887,726	\$	\$		\$ 887,726
In Lieu Tax Payments	2,739				2,739
Excess Fees	86,859				86,859
Licenses and Permits	60,476				60,476
Intergovernmental	387,092	1,163,789	778,606		2,329,487
Charges for Services	423,916		52,095		476,011
Miscellaneous	89,561	7,225	32,023		128,809
Interest	25,468	1,565	207	1	27,241
Total Revenues	<u>1,963,837</u>	<u>1,172,579</u>	<u>862,931</u>	<u>1</u>	<u>3,999,348</u>
EXPENDITURES					
General Government	486,075				486,075
Protection to Persons and Property	621,406		801,029		1,422,435
General Health and Sanitation	61,142				61,142
Social Services	19,946				19,946
Recreation and Culture	108,758				108,758
Roads		1,113,642			1,113,642
Other Transportation Facilities and Services	94,488				94,488
Debt Service	7,045		15,868	214,115	237,028
Administration	396,377	129,140	130,181		655,698
Total Expenditures	<u>1,795,237</u>	<u>1,242,782</u>	<u>947,078</u>	<u>214,115</u>	<u>4,199,212</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>168,600</u>	<u>(70,203)</u>	<u>(84,147)</u>	<u>(214,114)</u>	<u>(199,864)</u>
Other Financing Sources (Uses)					
Financing Obligation Proceeds	49,851	74,617			124,468
Transfers From Other Funds			285,000	214,115	499,115
Transfers To Other Funds	(285,000)		(214,115)		(499,115)
Total Other Financing Sources (Uses)	<u>(235,149)</u>	<u>74,617</u>	<u>70,885</u>	<u>214,115</u>	<u>124,468</u>
Net Change in Fund Balances	(66,549)	4,414	(13,262)	1	(75,396)
Fund Balances - Beginning	1,363,883	4,972	79,683	2	1,448,540
Fund Balances - Ending	<u>\$ 1,297,334</u>	<u>\$ 9,386</u>	<u>\$ 66,421</u>	<u>\$ 3</u>	<u>\$ 1,373,144</u>

The accompanying notes are an integral part of the financial statements.

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LARUE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LARUE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	(75,396)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		290,994
Depreciation Expense		(299,455)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds		(124,468)
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Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Principal Payments		142,110
Bond Principal Payments		125,000

Change in Net Assets of Governmental Activities	\$	58,785
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LARUE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

LARUE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 14,601
Total Current Assets	<u>14,601</u>
 Total Assets	 <u>14,601</u>
 Net Assets	
Unrestricted	14,601
Total Net Assets	<u><u>\$ 14,601</u></u>

The accompanying notes are an integral part of the financial statements.

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LARUE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LARUE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 15,613
Total Operating Revenues	<u>15,613</u>
Operating Expenses	
Cost of Sales	<u>91,254</u>
Total Operating Expenses	<u>91,254</u>
Operating Income (Loss)	<u>(75,641)</u>
Nonoperating Revenues (Expenses)	
Interest Income	90
Inmate Pay From State	4,621
Inmate Account	133,856
Inmate State Payroll	(2,047)
Inmate Refunds	(40,292)
Miscellaneous	<u>(19,153)</u>
Total Nonoperating Revenues (Expenses)	<u>77,075</u>
Change In Net Assets	1,434
Total Net Assets - Beginning	<u>13,167</u>
Total Net Assets - Ending	<u><u>\$ 14,601</u></u>

The accompanying notes are an integral part of the financial statements.

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LARUE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

LARUE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 15,613
Cost of Sales	(91,254)
Net Cash Provided By Operating Activities	(75,641)
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	4,621
Inmate Account	133,856
Inmate State Payroll	(2,047)
Inmate Refunds on Accounts	(40,292)
Miscellaneous	(19,153)
Net Cash Provided By Noncapital Financing Activities	76,985
Cash Flows From Investing Activities	
Interest Earned	90
Net Cash Provided By Investing Activities	90
Net Increase (Decrease) in Cash and Cash Equivalents	1,434
Cash and Cash Equivalents - July 1, 2003	13,167
Cash and Cash Equivalents - June 30, 2004	\$ 14,601
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (75,641)
Total Cash Provided By Operating Activities	\$ (75,641)

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of LaRue County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Based upon the application of the criteria stated in GASB 14, management has included the LaRue County Building Commission Corporation as a component unit of LaRue County Fiscal Court. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Unit

The fiscal court has included the LaRue County Building Commission Corporation because they appoint a voting majority of the governing board and impose their will to significantly influence the activities of the commission. The financial statements of the corporation are blended with those of the LaRue County Fiscal Court.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Kentucky law provides for election of the officials below from the geographic area constituting LaRue County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of LaRue County, Kentucky.

Additional- LaRue County Elected Officers

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: LaRue County Courthouse Improvements Bond Funds – 1998 and 1999. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1, following the assessment and subject to lien and sale February 1, following the delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-15
Infrastructure	\$ 20,000	10-50

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of LaRue County Fiscal Court: LaRue County Extension Service, LaRue County Health Department, and LaRue County Library.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of August 31, 2003, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$71,327 of public funds uninsured and unsecured. However, at June 30, 2004, the county's deposits were fully collateralized.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2003.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by the LaRue County Fiscal Court's agent in the county's name	861,873
Uncollateralized and uninsured	<u>71,327</u>
Total	<u>\$ 1,033,200</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,107,499	\$	\$	\$ 1,107,499
Total Capital Assets Not Being Depreciated	1,107,499			1,107,499
Capital Assets, Being Depreciated:				
Buildings	8,251,167			8,251,167
Other Equipment	1,130,936			1,130,936
Vehicles and Equipment	397,000	124,468		521,468
Infrastructure	4,353,930	166,526		4,520,456
Total Capital Assets Being Depreciated	14,133,033	290,994		14,424,027
Less Accumulated Depreciation For:				
Buildings	(3,434,016)	(147,477)		(3,581,493)
Other Equipment	(547,984)	(72,467)		(620,451)
Vehicles and Equipment	(161,717)	(75,764)		(237,481)
Infrastructure	(1,163,622)	(3,747)		(1,167,369)
Total Accumulated Depreciation	(5,307,339)	(299,455)		(5,606,794)
Total Capital Assets, Being Depreciated, Net	8,825,694	(8,461)		8,817,233
Governmental Activities Capital Assets, Net	<u>\$ 9,933,193</u>	<u>\$ (8,461)</u>	<u>\$ 0</u>	<u>\$ 9,924,732</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 69,811
Protection to Persons and Property	133,346
General Health and Sanitation	8,163
Social Services	6,219
Recreation and Culture	5,294
Roads, Including Depreciation of General Infrastructure Assets	<u>76,622</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 299,455</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Short-term Debt

In July 2003, LaRue County Fiscal Court participated in the Kentucky Association of Counties Advance Revenue Program by issuing a note in the amount of \$1,596,900, with principal being due in January 2004. While the Fiscal Court did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$464.

Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Revenue Anticipation Note	\$	\$1,596,900	\$1,596,900	\$	\$
Governmental Activities					
Short-term Liabilities	\$ 0	\$ 1,596,900	\$ 1,596,900	\$ 0	\$ 0

Note 5. Long-term Debt

A. First Mortgage Refunding Revenue Bonds, Series of 1998

The LaRue County Building Commission Corporation issued \$705,000 of First Mortgage Revenue Bonds, Series of 1991, dated January 1, 1991, at various interest rates for the purpose of constructing a courthouse facility (referred to herein as the "prior bonds").

The LaRue County Building Commission Corporation issued \$630,000 of First Mortgage Revenue Bonds, Series of 1998, dated October 1, 1998, at 4.10% interest rate for the purpose of discharging the outstanding prior bonds. Proceeds of the refunding revenue bonds were deposited into an Escrow Fund, and used to meet the scheduled principal and interest payments of the prior bonds, from January 1, 1999 through January 1, 2001 (dates inclusive). On January 1, 2001, the prior bonds were called at 103% and all outstanding prior bonds were retired using the remaining balance of the Escrow Fund.

Bond principal and interest requirements of the Jail Fund are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2005	\$ 45,000	\$ 15,375
2006	50,000	13,530
2007	50,000	11,480
2008	55,000	9,430
2009	55,000	7,175
2010-2011	120,000	7,380
Totals	\$ 375,000	\$ 64,370

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

B. General Obligation Improvement Bonds, Series of 1999

The LaRue County Fiscal Court issued \$1,910,000 of General Obligation Improvement Bonds, Series of 1999, dated January 1, 1999, at various interest rates for the purpose of construction of courthouse facilities.

Bond principal and interest requirements of the Courthouse Improvements Bond Fund are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2005	\$ 75,000	\$ 68,690
2006	80,000	65,690
2007	85,000	62,490
2008	85,000	59,090
2009	90,000	55,690
2010-2014	515,000	216,725
2015-2019	640,000	87,975
Totals	<u>\$ 1,570,000</u>	<u>\$ 616,350</u>

C. Jail Annex

On June 22, 1992, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the construction of a 30-bed jail annex. The principal was \$164,000 at 5.409 percent interest for a period of 20 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2005	\$ 9,000	\$ 5,275
2006	9,000	4,698
2007	10,000	4,094
2008	10,000	3,453
2009	11,000	2,785
2010-2012	37,000	3,821
Totals	<u>\$ 86,000</u>	<u>\$ 24,126</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

D. Road Garage Property

On September 12 1997, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of property for the road garage. The principal was \$385,000 at 4.25 percent interest for a period of 15 years, with interest and principal paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2005	\$ 24,982	\$ 8,623
2006	26,057	7,667
2007	27,178	6,671
2008	28,347	5,632
2009	29,567	4,548
2010-2013	<u>105,478</u>	<u>6,719</u>
Totals	<u>\$ 241,609</u>	<u>\$ 39,860</u>

E. Road Paving Project

On May 8, 1998 the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for paving of roads. The principal was \$300,000 at 4.5 percent interest for a period of 10 years, with interest and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2005	\$ 32,000	\$ 6,891
2006	33,000	5,099
2007	35,000	3,229
2008	<u>38,000</u>	<u>1,225</u>
Totals	<u>\$ 138,000</u>	<u>\$ 16,444</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

F. Road Equipment #2

On August 14, 2001, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of road equipment. The principal was \$66,390 at 4.67 percent interest for a period of five years, with interest and principal paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2005	\$ 13,705	\$ 967
2006	14,264	408
2007	<u>2,208</u>	<u>12</u>
Totals	<u>\$ 30,177</u>	<u>\$ 1,387</u>

G. Back-hoe Loader

On September 26, 2001, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a back-hoe loader. The principal was \$55,000 at 3.86 percent interest for a period of five years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2005	\$ 10,000	\$ 663
2006	<u>15,000</u>	<u>278</u>
Totals	<u>\$ 25,000</u>	<u>\$ 941</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

H. Sheriff's Vehicles

On February 26, 2004, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of two Sheriff vehicles. The principal was \$49,851 at 2.245 percent interest for a period of six years, with interest and principal paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2005	\$ 7,754	\$ 1,358
2006	7,991	1,130
2007	8,235	893
2008	8,487	649
2009	8,746	395
2010	<u>6,735</u>	<u>127</u>
Totals	<u>\$ 47,948</u>	<u>\$ 4,552</u>

I. Dump Truck

On February 26, 2004, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a Sterling Dump Truck, salt spreader, and snow plow. The principal was \$74,617 at 2.245 percent interest for a period of six years, with interest and principal paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2005	\$ 11,607	\$ 2,033
2006	11,961	1,692
2007	12,327	1,336
2008	12,703	972
2009	13,091	592
2010	<u>10,080</u>	<u>190</u>
Totals	<u>\$ 71,769</u>	<u>\$ 6,815</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

J. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 1,645,000	\$	\$ 75,000	\$ 1,570,000	\$ 75,000
Revenue Bonds	425,000		50,000	375,000	45,000
Financing Obligations	658,148	124,468	142,111	640,505	109,048
Governmental Activities Long-term Liabilities	<u>\$ 2,728,148</u>	<u>\$ 124,468</u>	<u>\$ 267,111</u>	<u>\$ 2,585,505</u>	<u>\$ 229,048</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$30,339 in interest on financing obligations and \$89,115 in interest on bonds and notes.

Note 7. Commitments and Contingencies - The Lincoln Museum, Inc.

On May 23, 2002, the LaRue County Fiscal Court entered into a lease-purchase agreement with Kentucky Area Development Districts (KADD) Financing Trust in the amount of \$285,000 for the renovation of the Abraham Lincoln museum. These payments are to be made by The Lincoln Museum, Inc. As of June 30, 2003, the principal outstanding was \$285,000. The debt service requirements are:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2005	\$	\$ 14,617
2006	40,000	14,568
2007	40,000	12,667
2008	40,000	10,768
2009	40,000	8,828
2010-2012	<u>125,000</u>	<u>14,436</u>
Totals	<u>\$ 285,000</u>	<u>\$ 75,884</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Federal and State Grants

A. Pearman Interpretive Center Project

During the fiscal year ended June 30, 2003, LaRue County Fiscal Court was awarded a land and water conservation grant in the amount of \$53,000 from the National Park Service of the U.S. Department of the Interior. The purpose of the grant is to assist in the renovation of a house into an interpretive center to be used for public outdoor recreational activities. The house is located on a local 228-acre farm site that was previously purchased by the County. The grant requires a 50% match of local funding with the County being reimbursed after funds are expended. During the fiscal year ended June 30, 2003, LaRue County expended \$6,402. During the fiscal year ended June 30, 2004, LaRue County expended \$76,723 for the renovation.

B. Fire Department Equipment Grant

During the fiscal year ended June 30, 2001, LaRue County Fiscal Court received a grant in the amount of \$195,000 from the Commonwealth of Kentucky for the purchase of new equipment and the update of current equipment for various county fire departments. Total expenditures for the fiscal years ended June 30, 2001, 2002, 2003, and 2004 were \$83,577, \$46,423, \$42,061, and \$22,939 respectively. The unexpended balance of the grant as of June 30, 2004 was \$0.

C. Homeland Security Grant

During fiscal year ending June 30, 2004, the LaRue County Fiscal Court was awarded a \$78,731 Homeland Security Grant from the U.S. Department of Homeland Security. This grant was passed to the county through the Kentucky Division of Emergency Management. This grant allows for the purchase of specialized equipment to enhance the capability of local agencies to prevent and respond to incidents of terrorism involving the use of chemical, radiological, nuclear or explosive weapons. Total grant monies received and expended in fiscal year ending June 30, 2004 was \$78,731. The unexpended balance of the grant award as of June 30, 2004 was \$0.

Note 9. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124 or by telephone at (502) 564-4646.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 10. Deferred Compensation

On February 24, 2000, the LaRue County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2004, LaRue County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Changes in Accounting Principles and Prior Period Adjustments

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$7,205,045 due to capital assets previously not reported.

Note 13. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction.

LARUE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

LARUE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 853,000	\$ 853,000	\$ 887,726	\$ 34,726
In Lieu Tax Payments			2,739	2,739
Excess Fees	92,000	92,000	86,859	(5,141)
Licenses and Permits	48,000	48,000	60,476	12,476
Intergovernmental Revenue	890,500	969,231	387,092	(582,139)
Charges for Services	405,000	405,000	423,916	18,916
Miscellaneous	28,000	28,000	89,561	61,561
Interest	38,500	38,500	25,468	(13,032)
Total Revenues	<u>2,355,000</u>	<u>2,433,731</u>	<u>1,963,837</u>	<u>(469,894)</u>
EXPENDITURES				
General Government	479,600	586,169	486,075	100,094
Protection to Persons and Property	540,225	624,563	578,650	45,913
General Health and Sanitation	559,850	569,508	61,142	508,366
Social Services	16,150	21,496	19,946	1,550
Recreation and Culture	147,050	147,050	108,758	38,292
Other Transportation Facilities and Services		94,500	94,488	12
Administration	474,450	402,770	396,337	6,433
Total Expenditures	<u>2,217,325</u>	<u>2,446,056</u>	<u>1,745,396</u>	<u>700,660</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>137,675</u>	<u>(12,325)</u>	<u>218,441</u>	<u>230,766</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(478,415)</u>	<u>(478,415)</u>	<u>(285,000)</u>	<u>(193,415)</u>
Total Other Financing Sources (Uses)	<u>(478,415)</u>	<u>(478,415)</u>	<u>(285,000)</u>	<u>(193,415)</u>
Net Changes in Fund Balance	<u>(340,740)</u>	<u>(490,740)</u>	<u>(66,559)</u>	<u>424,181</u>
Fund Balance - Beginning	<u>340,740</u>	<u>490,740</u>	<u>1,363,883</u>	<u>873,143</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,297,324</u>	<u>\$ 1,297,324</u>

LARUE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,097,354	\$ 1,357,354	\$ 1,163,789	\$ (193,565)
Charges for Services	2,500	2,500		(2,500)
Miscellaneous	17,500	17,500	7,225	(10,275)
Interest	4,400	4,400	1,565	(2,835)
Total Revenues	1,121,754	1,381,754	1,172,579	(209,175)
EXPENDITURES				
Roads	1,005,600	1,287,703	1,039,025	248,678
Administration	157,700	135,597	129,140	6,457
Total Expenditures	1,163,300	1,423,300	1,168,165	255,135
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(41,546)	(41,546)	4,414	45,960
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	31,546	31,546		(31,546)
Total Other Financing Sources (Uses)	31,546	31,546		(31,546)
Net Changes in Fund Balance	(10,000)	(10,000)	4,414	14,414
Fund Balance - Beginning	10,000	10,000	4,972	(5,028)
Fund Balance - Ending	\$ 0	\$ 0	\$ 9,386	\$ 9,386

LARUE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 596,631	\$ 596,631	\$ 778,606	\$ 181,975
Charges for Services	30,850	30,850	52,095	21,245
Miscellaneous	40,000	40,000	32,023	(7,977)
Interest			207	207
Total Revenues	667,481	667,481	862,931	195,450
EXPENDITURES				
Protection to Persons and Property	798,250	824,786	801,029	23,757
Debt Service	228,968	232,731	229,983	2,748
Administration	162,132	131,833	130,181	1,652
Total Expenditures	1,189,350	1,189,350	1,161,193	28,157
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(521,869)	(521,869)	(298,262)	223,607
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	446,869	446,869	285,000	(161,869)
Transfers To Other Funds				
Total Other Financing Sources (Uses)	446,869	446,869	285,000	(161,869)
Net Changes in Fund Balance	(75,000)	(75,000)	(13,262)	61,738
Fund Balance - Beginning	75,000	75,000	79,683	4,683
Fund Balance - Ending	\$ 0	\$ 0	\$ 66,421	\$ 66,421

LARUE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LARUE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

LARUE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004

	Courthouse Improvements Bond Fund 1999	Courthouse Improvements Bond Fund 1998	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 2	\$ 1	\$ 3
Total Assets	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 3</u>
FUND BALANCES			
Unreserved:			
Debt Service Funds	\$ 2	\$ 1	\$ 3
Total Fund Balances	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 3</u>

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LARUE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

LARUE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Courthouse Improvements Bond Fund 1999	Courthouse Improvements Bond Fund 1998	Total Non-Major Governmental Funds
REVENUES			
Interest	\$ 1	\$ 0	\$ 1
Total Revenues	<u>1</u>	<u></u>	<u>1</u>
EXPENDITURES			
Debt Service	146,690	67,425	214,115
Total Expenditures	<u>146,690</u>	<u>67,425</u>	<u>214,115</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(146,689)</u>	<u>(67,425)</u>	<u>(214,114)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	146,690	67,425	214,115
Total Other Financing Sources (Uses)	<u>146,690</u>	<u>67,425</u>	<u>1</u>
Net Change in Fund Balances	1		1
Fund Balances - Beginning	<u>1</u>	<u>1</u>	<u>2</u>
Fund Balances - Ending	<u><u>\$ 2</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 3</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Turner, LaRue County Judge/Executive
Members of the LaRue County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of LaRue County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 29, 2005. LaRue County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LaRue County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LaRue County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of LaRue County Fiscal Court, management, and the Kentucky Governor's Office of Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 29, 2005

